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The Experiment Donald Trump

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Abstract: With the election of Donald Trump, climate protection is exposed to strong headwinds. What does this mean for financial institutions? New research results reveal surprising findings.

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Alexander Wagner: «The Experiment Donald Trump»

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With the election of Donald Trump, climate protection is exposed to strong headwinds. What does this mean for financial institutions? New research results reveal surprising findings.

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Donald Trump's election pledge to lift climate policy measures of the Obama administration and to break with the Paris Agreement stands in stark contrast to Hillary Clinton's plan to promote the change to a more sustainable economy through further incentives and regulation.

A lot of analysts and investors were taken by surprise by the election of Trump. The stock price moves in the immediate aftermath of the election reflected to which extent a good climate footprint and sustainable business strategies affect the value of a company – apart from the effect of the expected tax and trade policies.

«The immediate winners of the Trump election were companies active in CO2-heavy industries»

The nomination of Scott Pruitt, a climate change skeptic with strong relations to big energy firms, as head of the Environmental Protection Agency also came as a surprise and can be seen as a further, particularly prominent shock for environmental policy. In this sense, with the surprising election of Donald Trump, the US electorate has created a natural experiment to evaluate the effects of various economic policies on the value of a company.

A new study has come to remarkable conclusions in its analysis of the effects of this election on share prices. A non-technical description of the analysis [can be found here](#). The academic paper [can be downloaded here](#).

The immediate winners of the Trump election were companies active in CO2-heavy industries. Producers of coal and steel as well as oil and gas gained significantly in value after the elections. These companies evaded costs that new rules expected from a Clinton administration would have imposed and that had already been priced in.

«How can these remarkable differences in performance be explained?»

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But there are companies in every industry – including the CO₂-intensive ones – that invest in a sustainable climate strategy. Climate responsibility measures the extent to which voluntary steps taken by companies to accelerate the shift to a more climate friendly economy. Such measures include for instance goals for the reduction of emissions or investment programs for an increase of energy efficiency.

The surprising conclusion: companies with a high climate responsibility level achieved a 0.46 percentage points higher (risk-adjusted) return on the first trading day after the election than comparable firms in the same industry. After ten trading days, the return difference was 0.72 percentage points. A similar picture emerged after the nomination of Pruitt as head of the environment agency: ten trading days later, responsible firms had taken a lead of 0.98 percentage points compared with otherwise similar companies.

How can these remarkable differences in performance be explained? Why did investors choose to bid up share prices of companies with a higher level of climate responsibility?

«Environment regulation and the costs that go along with these will rise all the more»

An analysis of the investment behavior of institutional investors in the months before and after the election shows that investors' expectations of future corporate profitabilities are crucial. They seem to expect that climate-conscious companies are a worthwhile investment in the long run and anticipate a boomerang effect once the Trump administration is no longer in power. At that point, environment regulation and the costs that go along with these will rise all the more.

Hence it makes sense for investors with a long-term perspective to already today invest in companies that act responsibly. The study, however, found no direct evidence of a rather more psychological warm-glow effect for institutional investors. The findings have four major implications.

- First, investors are well advised to continue taking the question of climate protection into account and even to a stronger degree than they do today, because it affects the value of companies.

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- Second, investors with a long-term perspective such as pension funds can ignore short-term shifts of climate policy and reflect their long-term concerns in the portfolio allocation.
- Third, banks and wealth managers have an opportunity to (and have a responsibility to) serve the demands of investors with tailor-made products.
- Fourth, companies can count on the support of the financial market for their investments in climate protection measures even – and actually even more so – against the backdrop of the current U.S. environmental policy.

Alexander F. Wagner is an associate professor of finance at the [Swiss Finance Institute](#) (SFI) and at University of Zurich. He received his PhD in political economy from Harvard University. Research on corporate finance, corporate governance and behavioral economy has been published in leading academic journals. Wagner is chairman of [SWIPRA](#) and independent adviser at [PwC](#). You can access the complete academic paper under [the following link](#).

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